

# Chapter 3: Service Credit

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## Chapter Overview

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This chapter provides information about service credit in the Washington State retirement systems. Refer to this chapter for:

- General information about service credit and its importance to members
- Service credit rules for the retirement systems you report. Your handbook may include information for:
  - Public Employees' Retirement System (PERS)
  - School Employees' Retirement System (SERS)
  - Teachers' Retirement System (TRS)
  - Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)
  - Washington State Patrol Retirement System (WSPRS)
  - Judicial Retirement System (JRS)
  - Judges' Retirement Fund (JRF)
- Summaries of service credit rules for prior periods for PERS, TRS and LEOFF members

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## What is Service Credit

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An employee working for you in a position covered by a retirement system earns service credit toward his or her retirement. The amount of service credit an employee earns is based on the time he or she works. For all plans except TRS Plan 1, no more than one month of service may be granted for any calendar month. For TRS Plan 1, no more than one year of service may be granted for any fiscal year.

### The Importance of Service Credit

A member must earn service credit in order to qualify for a service retirement benefit. Service credit is used to calculate the amount of a member's monthly retirement benefit. In order to ensure service credit is recorded correctly, employers must report hours or days of service to DRS each month.

A member's monthly retirement benefit is based on both accumulated service credit and average final compensation (AFC) or salary. To determine accumulated service credit, all the years and months of service credit the member earned while working in a given system are added together. To determine the AFC or salary, DRS averages the member's highest months or years of earnings. (The period used for calculating the AFC or salary varies between systems and plans.)

For example, in PERS Plan 2, SERS Plan 2, TRS Plan 2 and LEOFF Plan 2, the monthly retirement benefit is calculated using the following formula:

$$\begin{array}{c} 2 \text{ percent} \\ \times \\ \text{service credit years} \\ \times \\ \text{average final compensation} \\ \text{equals} \\ \text{monthly benefit} \end{array}$$

**Note:** The AFC for PERS Plan 2, SERS Plan 2, TRS Plan 2 and LEOFF Plan 2 is the monthly average of the 60 consecutive highest paid service credit months.

The following examples show the importance of service credit in calculating retirement benefits. Qualifications for retirement and the percentages used in benefit calculations vary between systems and plans. For more information, members should refer to the member handbooks.

### Examples of Retirement Benefit Calculations

- A PERS Plan 2 member retires at age 65 with 25 years service credit and a monthly AFC of \$2500. The member's monthly retirement benefit will be \$1250.
- $$\begin{array}{l} 2\% \times 25 \text{ years} = 50\% \\ 50\% \times \$2500 = \$1250 \end{array}$$
- A second PERS Plan 2 member retires at age 65 with 20 years service credit and the same AFC. The member's monthly retirement benefit will be \$1000.
$$\begin{array}{l} 2\% \times 20 \text{ years} = 40\% \\ 40\% \times \$2500 = \$1000 \end{array}$$

## The Importance of Service Credit in Prior Periods

From January 1987 through August 1991, service credit carried additional importance for employers. During that period, for members of PERS Plan 1 and Plan 2, TRS Plan 2 and LEOFF Plan 2, contributions were not due unless service credit was earned. An employer determined whether an employee had earned service credit each month before deciding to pay employer and employee contributions. For details about service credit rules for prior periods, refer to the information on Service Credit and Contributions for each system later in this chapter.

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## How is Service Credit Earned

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Each retirement system and plan has rules about how service credit is earned. In general, a member earns service credit for each month or year in which he or she works a certain number of hours or days. TRS Plan 1 members earn one year of service credit for working 144 days or more, or a fraction of a year, if they work between 20 and 144 days in a fiscal year. Since September 1, 1991, for PERS Plan 2, SERS Plan 2, TRS Plan 2, LEOFF Plan 2, since July 1, 1996, for TRS Plan 3, and as of September 1, 2000, for SERS Plan 3, members can earn *partial service credit* (either  $\frac{1}{4}$  or  $\frac{1}{2}$  of a full month) for working fewer than the number of hours required for a full month of service credit. PERS Plan 1 members can earn either  $\frac{1}{4}$  or a full month of service credit in a month.

For members of PERS, SERS Plan 2 and Plan 3, TRS Plan 2 and Plan 3, LEOFF, JRS and WSPRS, service credit is measured in months. Service credit for members of TRS Plan 1 is measured in years. Basic rules of service credit for each system are explained later in this chapter.

## Service Credit for Certain Types of Leaves

In some circumstances, members may also earn or purchase service credit for military leave, disability leave or unpaid leave of absence authorized by an employer. Rules vary between systems and plans. A member who needs more information should refer to the appropriate member handbook.

### **Service Credit Reported on Member's Annual Statement**

Each year, DRS provides you with an annual statement for each employee who is a member of a retirement system. The statements incorporate the member's individual account information with details about the system and plan and how a benefit is calculated at retirement. The annual statements are sent to you for distribution. Statements are sent to education employers each November and non-educational employers receive statements in March.

Information on the annual statements include service credit earned by the member for the prior year (calendar or school year, depending on the type of employer) and the member's total service credit and, for all except TRS Plan 3 and SERS Plan 3 members, contribution and interest account information. If you or the member suspect an error on the annual statement, contact the appropriate Retirement Services Unit at DRS.

- school district employees who fell below 70 hours a month between September 1, 1983, and August 31, 1990; and
- employees with a contract year other than September 1 through August 31.

## **Plan 2**

Before September 1, 1990, a PERS Plan 2 member working for an educational employer earned 12 months of service credit if the member:

- was employed in an eligible position;
- was continuously employed for nine months; and
- earned service credit in at least 9 calendar months of the contract or school year. (Members earned service credit if they received compensation for at least 90 hours of employment in a month.)

A PERS Plan 2 member in an eligible position who did not meet the requirements to earn a full year of service credit earned service credit on a monthly basis as follows:

- A member compensated for 90 hours or more in a month earned one month of service credit.
- A member compensated for less than 90 hours in a month did not earn service credit for that month.

**Note:** Before September 1, 1990, there were some exceptions to the service credit rules. Refer to the section “Exceptions . . .” on pages 3—6 PERS ED for information about:

- school district employees who fell below 90 hours a month between September 1, 1983, and August 31, 1990;
- employees with a contract year other than September 1 through August 31; and

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## Exceptions for Periods Prior to September 1, 1990

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Prior to September 1, 1990, the following exceptions applied to PERS Plan 1 members working for education employers.

### School District Employees—Scheduled School Closures

From the 1983—84 school year through the 1989—90 school year, school district employees may have earned service credit although their hours fell below 70. This exception applied in calendar months when the school closed for a vacation period of five or more consecutive calendar days (including Saturday and Sunday).

- A Plan 1 member in an eligible position earned service credit for such a month if the member was compensated for an average of at least 3½ hours for each day the school was open during the month.

**Note:** Beginning January 1987, status code C was used to report a member qualified for service credit in those months.

### Contract Year Other Than September 1—August 31

Before September 1, 1990, employers were required to notify DRS of a Plan 1 member's contract year if:

- the member's contract year covered a period other than September 1 through August 31, and
- the member met the annual service credit rule (even if he or she worked and earned service credit in less than 12 months of the year).

### Employees of Educational Service Districts

Prior to September 1990, Plan 1 members employed by educational service districts were not eligible for a full year of service credit unless they worked at least 70 hours in all 12 months.

## SERS Service Credit

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### A Summary

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This section contains information about service credit for members of the School Employees' Retirement System (SERS). This information applies to members working for school districts and educational service districts.

Rules governing service credit are contained in state retirement law. This handbook summarizes those rules in less legalistic terms. It is not a complete description of the law. If there are any conflicts between what is written here and state retirement law, the law will govern.

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### Service Credit Rules (except for Elected Officials)

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The following information explains how SERS members earn service credit while working in eligible positions. If you have questions about a member's service credit or elected and Governor-appointed officials service credit, contact PERS/SERS Retirement Services.

**Note:** If a SERS member was employed with a school district or educational service district prior to September 2000, the educational service credit rules (PERS Education) in affect at that time apply; those rules are outlined in this chapter.

**Note:** If a SERS member worked for a non-education employer; e.g., state agency or county, prior to September 2000, the PERS service credit rules (versus PERS Education) in affect at that time apply. (See pages 3- 1 PERS through 3—4 PERS for a summary of the PERS service credit rules.)

### September 1, 1991, and After

A SERS member working for an educational employer earns 12 months of service credit if all three of the following requirements are met. The member must:

- be employed in an eligible position;
- earn compensation in nine months of the school year; and

- be compensated for 810 hours or more.

A SERS member who does not meet the criteria to earn a full year of service credit earns ½ year (six months) of service credit if the member is:

- employed in an eligible position;
- compensated in nine months of the school year; and
- compensated for at least 630 hours but less than 810 hours.

A SERS member in an eligible position who does not meet the criteria to earn a full year or ½ year of service credit earns monthly service credit as follows:

- A member compensated for 90 hours or more in a month earns one month of service credit.
- A member compensated for at least 70 hours but less than 90 hours in a month earns ½ month of service credit.
- A member compensated for less than 70 hours in a month earns ¼ month of service credit.

**Note:** A member cannot earn service credit for months before employment in an eligible position. For example, a member who meets the criteria for a full year of service credit but is not employed in an eligible position until October can receive only 11 months of service credit that year.

### **September 1, 1990, through August 31, 1991**

During the period from September 1, 1990, through August 31, 1991, a SERS member working for an educational employer earned 12 months of service credit if the member was:

- employed in an eligible position;
- compensated in nine months of the school year; and
- compensated for 810 hours or more in the school year.

A SERS member in an eligible position who did not meet the requirements to earn a full year of service credit earned service credit on a monthly basis as follows:



- A member compensated for 90 hours or more in a month earned one month of service credit.
- A member compensated for less than 90 hours in a month did not earn service credit for that month.

**Note:** For periods of service on and after September 1, 1990, a member cannot earn service credit for months before employment in an eligible position. For example, a member who meets the criteria for a full year of service credit but is not employed in an eligible position until October can receive only 11 months of service credit that year.

### **Prior to September 1, 1990**

Before September 1, 1990, a SERS member working for an educational employer earned 12 months of service credit if the member:

- was employed in an eligible position;
- was continuously employed for nine months; and
- earned service credit in at least nine calendar months of the contract or school year. (Members earned service credit if they received compensation for at least 90 hours of employment in a month.)

A SERS member in an eligible position who did not meet the requirements to earn a full year of service credit earned service credits on a monthly basis as follows:

- A member compensated for 90 hours or more in a month earned one month of service credit.
- A member compensated for less than 90 hours in a month did not earn service credit for that month.

**Note:** Before September 1, 1990, there were some exceptions to the service credit rules. Refer to the Section “Exceptions...” on page 3—4 for information about:

- school district employees who fell below 90 hours a month between September 1, 1983, and August 31, 1990;
- employees with a contract year other than September 1 through August 31; and
- members employed by educational service districts.

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## Exceptions for Periods Prior to September 1, 1990

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Prior to September 1, 1990, the following exceptions applied to SERS members working for education employers.

### **School District Employees—Scheduled School Closures**

From the 1983—84 school year through the 1989—90 school year, school district employees may have earned service credit although their hours fell below 90. This exception applied in calendar months when the school closed for a vacation period of five or more consecutive calendar days (including Saturday and Sunday).

- A SERS member in an eligible position earned service credit for such a month if the member was compensated for an average of at least 4½ hours for each day the school was open during the month.

**Note:** Beginning January 1987, status code C was used to report a member qualified for service credit in those months.

### **Contract Year Other Than September 1—August 31**

Before September 1, 1990, employers were required to notify DRS of a member's contract year if:

- the member's contract year covered a period other than September 1 through August 31, and
- the member met the annual service credit rule (even if he or she worked and earned service credit in less than 12 months of the year).

### **Employees of Educational Service Districts**

Prior to September 1990, SERS members employed by educational service districts were not eligible for a full year of service credit unless they worked at least 90 hours in all 12 months.

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## Service Credit and Contributions

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### September 1, 1991, and After

Because a SERS member earns at least partial service credit in any month in which he or she earns compensation, an employer must take contributions on any amount of reportable compensation earned on or after September 1, 1991.

### January 1, 1987, through August 31, 1991

For earning periods from January 1987 through August 1991, employee and employer contributions were due only when a member earned service credit. When a member did not earn service credit, no contributions were due. To determine whether a member was earning service credit during these earning periods, consult the guidelines on the preceding pages.

**Note:** During the period from January 1987 through August 1991, a member could consolidate hours of employment with more than one employer to earn service credit if each position was eligible. If a member's hours from all eligible positions totaled 90 hours or more in a month, contributions were due on all reportable compensation paid to the employee that month.

### Prior to January 1, 1987

Before January 1, 1987, contributions were due on all regular compensation earned by a member working in an eligible position, whether or not service credit was earned.

<b>SERS Plan 2 and Plan 3 Employers A Table of Service Credit Rules</b>
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**On or after September 1, 1991**

*A member employed in an eligible position earns service credit as follows:*

If compensated in nine months of the school year and for 810 hours or more = 12 months of service credit.\*

If compensated in nine months of the school year and for at least 630 hours but less than 810 hours = 6 months of service credit.

*A member employed in an eligible position who does not qualify for a full or half year of service credit earns service credit as follows:*

90 hours or more of compensation in a month = one month of service credit

70 hours but less than 90 hours of compensation in a month = ½ month of service credit.

Some compensation, but less than 70 hours in a month = ¼ month of service credit.

\* On or after September 1, 1990, a member cannot earn service credit for any month prior to employment in an eligible position. For example, a member who meets the criteria for a full year of service credit but is not employed in an eligible position until October can receive only 11 months of service credit for that year.